PHILIP MORRIS COMPANIES INC. INTER-OFFICE CORRESPONDENCE

120 PARK AVENUE, NEW YORK 10017

TO: Michael A. Miles

DATE: April 21, 1993

FROM: Dede Thompson Bartlett

RECEIVED

APR 21 1993

SUBJECT: Proxy Card Comments

MICHAEL A. MILES

The following questions are based on comments taken from proxy cards received to date.

1. **Change in business strategy:**

Q. Why did PM USA initiate a price war with its April 2 announcement?

R. We did not initiate a price war. We just raised our prices for discount items again. Our new strategy is an effort to make Marlboro's price more affordable to support our brand franchises.

2. **Composition of the Board:**

Q. Why don't you have more women on the board?

R. At this time we have two women Directors on the board. There have been times when there were more women on the board. As a company committed to diversity, we are constantly evaluating the qualifications of people who can be good contributors to the Board. We do not have a quota system. We try to strike the right balance.

Q. Why don't you have a mandatory retirement age of 65 for Directors? Why are persons 65 or older eligible to sit on the board?

R. Our policy states that an Outside Director will not stand for election as a Director in the year following his 68th birthday. Mr. Joseph Culmann is a Director Emeritus of Philip Morris. A Director Emeritus shall receive notices of and may attend all meetings of the board but shall not be counted for the purpose of a quorum or be eligible to vote. A Director Emeritus may serve as a member and may act as chairman of any committee of the Board other than the Executive Committee but shall not be counted for the purpose of a quorum or be eligible to vote.

Q. Aren't 19 Directors too many?

R. We consider that our present board is the right size, giving us the diversity and experience we need.

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Source: https://www.industrydocuments.ucsf.edu/docs/jykm0000

3. Director's Stock Holdings:

Q. Why don't more Directors own more stock in the Company, thus demonstrating their confidence and tying their interests to ours?

R. Our directors do own stock in our company and a portion of their compensation for their services on the board is paid in stock, thus linking their ownership in the company to that of all other shareholders.

4. Directors serving on other boards:

Q. How can Directors who serve on other boards give their full attention to PM?

R. It is important for Directors to serve on other boards because it provides valuable experience and ideas. If we expect to attract other qualified board members, we must in turn be willing to serve on other boards.

5. Falling Stock Price:

Q. What are you doing about the falling price of PM stock?

R. We will do whatever we must do – reasonably and responsibly – to enhance shareholder value. The best way to increase our value to you is to improve financial performance. PM was built upon exceptional financial performance.

6. Stock split/dividend increase

Q. Why not consider a dividend increase or stock split?

R. Dividend increase: We anticipate the dividend payout ratio will remain in the current range. Dividend payout has increased each year over the last ten years, reflecting strong growth in cash flow.

Stock Split: We have split stock on six occasions since 1965, and one share of stock then is worth 192 shares today. Splits have occurred at prices ranging from $60 to $160.

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Source: https://www.industrydocuments.ucsf.edu/docs/jykm0000

7. Annual Report:

Q. Isn't mailing the Annual Report an unnecessary expense?

R. The cost of mailing the Annual Reports and Proxy Statements in 1992 was $880,261. We do not believe it is an unnecessary expense. It is one of the most important ways in which we communicate with our shareholders and let them know of our current performance and future goals.

8. Officers/Directors' compensation:

Q. How can you justify your outrageous salaries and bonuses when the stock is dropping?

R. Management's pay is in line with peer group, is determined by the Compensation Committee, and is based on performance. A large portion of the compensation consists of long-term incentives, such as stock options. Consequently, when the price of Philip Morris shares drops, management is affected in the same way that you and other shareholders are.

cc: Murray Bring

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Source: https://www.industrydocuments.ucsf.edu/docs/jykm0000